

**EXECUTIVE SECRETARIAT
ROUTING SLIP**

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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SUSPENSE

Date

Remarks

STAT

Executive Secretary
10 Aug 84

Date

3637 (10-81)

MINUTES
ECONOMIC POLICY COUNCIL

July 31, 1985
2:00 p.m.
Roosevelt Room

85-3115/3
31 Jul 85

Attendees: Messrs. Baker, Block, Baldrige, Yeutter, Sprinkel, Whitehead, Darman, Burnley, Wright, Kingon, McAllister, Oglesby, Cornell, Driggs, Holmer, Khedouri, Mulford, Smart, Whitfield, Wigg, Cohen and Stucky.

1. Common Fund

Mr. Cornell, noting that the Council had reviewed the issue of whether the U.S. should join the Common Fund at an earlier meeting, explained that the question remaining is, should the U.S. publicly announce an intention not to ratify the Common Fund Agreement.

Several members of the Council spoke in favor of announcing our intentions not to ratify, with the possibility of encouraging other nations to follow our lead. Others expressed concern that U.S. vagueness might be interpreted as disingenuousness, particularly by the developing nations.

The Council also discussed the possibility of the Soviet Union ratifying the Common Fund Agreement and the likely effect that would have on U.S. interests.

Decision

Secretary Baker asked the Executive Secretary to poll later each member of the Council as to whether the U.S. should publicly announce a decision not to ratify the Common Fund Agreement or maintain the current policy of leaving the possibility of U.S. ratification open.

2. U.S.-EC Steel Negotiations

Ambassador Yeutter outlined the current status of U.S.-EC negotiations on the consultation steel products, noting that he is actively discussing the issue with EC Commissioner De Clercq. The U.S. has threatened to take unilateral action against the EC on August 1.

Ambassador Yeutter traced the history of the negotiations over the consultation products. Consultation products were excluded from the 1982 U.S.-EC Steel Arrangement because EC exports of these products to the U.S. were relatively insignificant through 1981. However, the Steel Arrangement provides that if imports of consultation products show a significant increase, indicating the possibility of diversion



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from the licensed products, consultations will be held "with the objective of prevent such diversion, taking into account the 1981 market share levels." The first EC offer for restraint, made on July 19, would have resulted in an increase in imports above the 1984 level. Their most recent offer would establish the limit at 538,000 tons, 10 percent below the 1984 level. Commissioner De Clercq however informally has offered an 505,000 ton limit.

Ambassador Yeutter stated that the most recent U.S. offer is 475,000 (on an annual basis) for the second half of 1985, well above the 332,000 tons imported in 1981, and 25 percent below the E.C.'s 1984 level of 634,000 tons. The U.S. also allowed entry of 100,000 tons of EC pipe for the All American pipeline in order to facilitate negotiations. He also noted that the EC has threatened to retaliate against U.S. agricultural exports, should the U.S. unilaterally impose restraints against consultation products imports.

Secretary Baldrige stated that the issue was not just the difference of 25,000 tons of consultation products but also about how we negotiate with the EC trading partners. He noted that in the past, the U.S. typically has compromised, while the EC typically has remained intransigent. He also observed that since the 1982 Steel Arrangement EC exports of consultation products have increased 2.6 percent in 1982, 8.7 percent in 1983, and 9.6 percent in 1984.

Secretary Block stated that, although the EC may retaliate against agricultural products, unilateral action may be the only kind of signal that would affect the EC. Mr. Sprinkel indicated that trade restraints are harmful and that unilateral action may spawn greater, not fewer, trade restraints.

The Council discussion focused on the U.S.'s lack of success in dealing with the EC and the likely Congressional reaction to a failure on the part of the Administration to back its threat of unilateral action.

Decision

Secretary Baker asked that a memorandum be prepared for the President, outlining the issue, the major arguments, and the options, and indicating the recommendations of each agency. The Treasury, the Departments of Commerce and Agriculture, the National Security Council, and the Office of Management and Budget supported unilateral restraint. The State Department and the Council of Economic Advisers supported continuing negotiations.